

**Internal Control Assessment
FSA's Capital Assets Useful Life Periods**

Purpose

To ensure that FSA establishes and maintains proper standardized useful life periods for its capital assets.

Background

In accordance with the Governmental Accounting Standards Board, useful life periods should be established for capital assets. Estimated useful life means the estimated number of months or years that an asset will be able to be used for the purpose for which it was purchased. Capital assets are land, structures, office equipment, intellectual property (e.g., software), and information technology (IT) equipments that are used by the Federal government and have an estimated useful life of two years or more.

In determining useful life periods, FSA should consider a number of factors including the asset's present condition, its intended use, and how long it is expected to reliably meet service demands without major interruption of service. An asset must have an estimated useful life greater than one reporting period to be considered for capitalization and depreciation. Assets that are consumed, used-up, habitually lost, or worn-out in one year or less should not be capitalized.

Tangible capital assets, except leasehold improvements, will have standard useful life periods ranging from X to XX years. Useful life periods for the following categories of tangible capital assets are as follows:

- IT Equipment – X years;
- Office Equipment – X years;
- Furniture and Fixtures – XX years for both;
- Building Alterations – XX years; and
- Leasehold Improvements – length of the lease term period.

Internal use software will have standard useful life periods ranging from X to XX years. Contractor-developed software in areas of rapidly changing technology will have standard useful life periods of X years. All other contractor and internally developed software will have a standard useful life period of XX years.

Occasionally, a tangible capital asset's useful life will be extended, e.g., due to betterment. If a useful life period is extended, the remaining book value of the tangible capital asset will be depreciated over the remaining useful life period, which includes the extended period. Any additions to the book value of internal use software will be amortized over its remaining useful life period. If a useful life period is extended, the un-amortized amount will be amortized over the adjusted remaining useful life period.

Internal Control Standard

FSA must establish and maintain standardized useful life periods for its capital assets.

Assessment of FSA's Compliance*

We have reviewed FSA's tangible and intangible capital assets depreciation calculations for fiscal year 2000 and 2001, and determined that FSA is properly utilizing its established useful life table with consistency over the years.

* The actual testing phase including interviews and examination of sampled records has not yet occurred. This write-up is only a sample of what may be discovered during the testing phase of the FMFIA process.